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C O N F I D E N T I A L SECTION 01 OF 03 BAKU 000192

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TAGS: [PGOV](#) [PREL](#) [AJ](#) [TU](#) [ENRG](#)
SUBJECT: AZERBAIJAN: NABUCCO PARTNER RWE CAUTIOUSLY
OPTIMISTIC, SAYS IGA IS KEY

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY: A high-level executive from Nabucco Consortium partner RWE Gas Midstream said the next four to six months were "crucial" for the pipeline project's fate. If the Nabucco transit countries can initial an Intergovernmental Agreement at the May 7 Prague Summit it would "send a strong signal to the market," allowing the stalled project to move forward. He dismissed concerns about gas supply shortages, saying that if the IGA (and subsequent HGAs) are signed, Nabucco "will find the gas." RWE was pursuing two promising possibilities in this regard, one in Turkmenistan and the other in northern Iraq. Turkey was playing a positive role in the build-up to the IGA signing, but RWE cautioned that if the issue of gas transit through Turkey weren't solved by the Prague Summit, it wouldn't be solved in the foreseeable future. He said RWE had just learned that in addition to GOAJ President Aliyev, GOTX President Berdimuhamedov would also be attending the Prague Summit in May. END SUMMARY.

¶2. (C) On March 10 Ambassador Derse met with RWE Gas Midstream Head of Business Development Jeremy Ellis, accompanied by RWE Dea Azerbaijan Branch General Manager David Skeels and RWE Business Development head of Caspian Gas Supply Ilham Akhbarov. EnergyOff was notetaker.

RWE: NEXT FEW MONTHS KEY

¶3. (C) Ellis told the Ambassador that the preceding day RWE President and CEO Jurgan Grossman met with President Ilham Aliyev. President Aliyev engaged in what Ellis termed his "usual Turkey paranoia," but told CEO Grossman unequivocally that "if you deliver, so will we." Aliyev said that Azerbaijan would sell "no more than four billion cubic meters annually (bcm/a)" to Turkey, leaving seven or eight for Europe. However, Azerbaijan would move forward and "upset its neighbors" (i.e. Russia) by committing supply for Europe only after it saw "definitive" signs of progress.

¶4. (C) Ellis told the Ambassador that for Nabucco to move forward it was essential that the transit countries sign the Nabucco Intergovernmental Agreement (IGA). The Nabucco Consortium had submitted a draft to the respective transit countries, who were now "busy re-writing it," with the European Commission Energy Commissioner Piebalgs supervising the overall process and EC DG TREN Director Heinz Hilbrecht involved in the negotiations. The plan is for the final IGA to be agreed upon in April, and for the transit countries to initial it during the May 7 Prague Nabucco Summit. If all went well, Ellis said that the Nabucco Final Investment Decision would be in 2010, with 'first gas' possibly around ¶2014.

15. (C) Ellis said the Nabucco Consortium was also pushing ahead with the respective Host Government Agreements (HGA) between the transit countries and the Nabucco Consortium, resisting the temptation to "water down" the documents and forestall important decisions - "it is now or never." There would be "no special deals" for any transit country, only a dedicated pipeline, owned by the Nabucco Consortium, with all related shipping/transiting rights "ring-fenced in."

16. (C) Ellis said that in these pre-IGA negotiations Turkey is playing a positive role, "pushing the agenda," and "not holding back." GOT Energy Minister Guler told the Nabucco Consortium at the end of 2008 that the GOT would be willing to drop its insistence on fifteen percent lift-off rights for transiting gas, in exchange for what Ellis termed "non-committal but comforting" wording about guarantees for Turkish supply. Ellis mused that Turkey's willingness to relinquish this stipulation could be due to lower anticipated demand due to economic slowdown, progress in bilateral supply discussions with Russia or Iran, or to the fact that Turkey realizes that "without Nabucco, Turkey has a problem."

17. (C) In this regard, Ellis said he had heard of Russia-Turkey discussions, possibly involving Blue Stream Two, but he didn't think Nabucco would be affected. As for Southstream, it was clearer than ever that it "would never happen," in part because the Black Sea were national vice international waters, and Turkey and Ukraine could therefore stop the project. Of course, if Turkey committed itself to Russia as a gas supplier, the strategic equation would

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change. Regardless, Ellis said that "there was room for both Nabucco and Southstream."

18. (C) Ellis praised the USG for its constructive role heretofore with the GOT, and called for continued pressure on Turkey to "keep it on the straight road." He sensed that Turkey wanted a gas deal with Azerbaijan before the April IGA signing, but thought that eventuality unlikely. Turkey "hasn't lost its ambitions to be a hub," but "wanted too much." Despite its comments about security of supply, he thought that the GOT was primarily motivated to get as good a price as it could for imported gas. What Turkey didn't realize was that Nabucco "gave Turkey all it was asking for:" multiple supply options, connectivity with markets, and more investment." Ellis thought that any Turkey transit solution would have to occur by the Prague Summit.

19. (C) Ellis said that the signing of IGA in Prague (and related HGA) would "send a strong signal to the market" that Nabucco was a reality, as would the Nabucco Consortium's "pumping money for the engineering phase" post IGA-signing. He expected that with this signing, there would be far less "political interference" surrounding Nabucco. He was heartened by the fact that both GOAJ President Aliyev and GOTX President Berdimuhamedov would be attending this summit.

GOTX

110. (C) Ellis said that RWE was becoming more active in Turkmenistan, both onshore and offshore Prefacing his comments by saying that "any visitor to Ashqabat was promised ten bcm/a," Ellis said that that RWE was was close to signing a framework agreement in mid-April that was "more than a memorandum of understanding" with the GOTX, the signing to come perhaps before the Prague Summit. RWE expected ten bcm/a supply from this arrangement, which would encompass a wide variety of technical and human resources support for Turkmenistan. All gas from such a deal would be exported across the Caspian. Although the European Commission was unhappy with the "Caspian Energy Company" (CEC) that RWE and OMV had created in response to the Commission's own "Caspian Development Company (CDC), these two companies created the CEC because "they couldn't wait for

the CDC."

NO SUPPLY CONCERNS

¶11. (C) Ellis said that despite the conventional wisdom, he had "no supply concerns" for Nabucco - "we'll find the gas, once the documents are signed." Although "Iran was off the agenda," prospects in northern Iraq were good, to include an "interesting opportunity" for RWE that could actualize within the next few mnths. The company was doing due diligence, and as concerned about the lack of a regulating Hydrocarbon Law, and possible fallout of a Northern deal with from the Central Government. If there were no political barriers, gas could flow from this northern Iraqi prospect in "18 - 24 months." RWE has not talked to Turkey about its Iraqi gas options, but Ellis said that "any gas flowing out of northern Iraq is going to have to drop off a few bcm in Turkey."

TGI

¶12. (C) Ellis said that the Italians (i.e. Edison) were "stuck in Turkey," more so than Nabucco, since the Turkey-Greece-Italy Pipeline project (TGI) I relied on a GOT gas transmission system that wasn't up to the task - "Turkey cannot support TGI." The GOT regulatory system was another minefield for TGI. However, Nabucco would have its own dedicated pipeline. He confided that the Nabucco Consortium was in talks with Edison to link the two projects, possibly by a feeder pipe from Bulgaria, or by moving Nabucco into Greece. Alternatively, the Nabucco Consortium could give five bcm/a to Edison from Baumgarten. Such a merger would be good for Nabucco as it would "take the competition out," creating one true Southern Corridor Project (NOTE: Ellis dismissed the Trans-Adriatic Pipeline - TAP - as not viable). (COMMENT: In recent talks, an Edison executive told EnergyOff that Edison was not seriously contemplating such a merger.)

¶13. (C) COMMENT: In the Embassy's experience RWE in general and Ellis in particular has always been the most honest and straightforward of the Nabucco Consortium interlocutors, and as such we take his relative optimism at face value. By his

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own metrics, the May IGA signing is the key event for Nabucco to move forward, and as such the ball is now in the court of the transit countries and the EC. Azerbaijan stands ready to provide both seven to eight bcm/a to this project should transit through Turkey become a reality and also to provide transit for Turkmen volumes if necessary. END COMMENT.
DERSE